

Reporting on risk and control

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PROPOSITIONS

belonging to the dissertation

REPORTING ON RISK AND CONTROL

Rogier Deumes

1. Managers of listed Dutch firms have contracting incentives to disclose their internal control activities on a voluntary basis in the annual report. (*Chapter 2 of this dissertation*)
2. Despite the widespread use of variance measures as risk proxies that reflect both upside and downside potential, managers associate firm risk primarily with factors that may negatively impact future firm performance. (*Chapter 3 of this dissertation*)
3. Managers' forward-looking qualitative risk disclosures in prospectuses are a useful and unique source of information about firm risk for both investors and researchers. (*Chapter 3 and 4 of this dissertation*)
4. For firms with an initial public offering, the potential wealth gain as a result of more effective monitoring of managerial performance is directly associated with the level of firm risk. (*Chapter 4 of this dissertation*)
5. While section 404 of the Sarbanes-Oxley Act of 2002 led to increased corporate awareness of internal control issues and improved internal control processes, the costs of compliance are far higher than anticipated and may outweigh the benefits.
6. The quality of an independent auditors' opinion about the quality of their clients' internal controls, critically depends on the quality of their own internal controls – most notably the effective separation of the function of client risk assessment from the revenue-producing side of the business.
7. For companies with overvalued equity, the immediate benefit of enhanced risk disclosure for managers and investors may well be a more accurate cost of capital rather than a lower cost of capital.
8. Because rational self-interested people always have incentives to mitigate conflicts of interest in order to reduce the losses resulting from these conflicts, the problem is not to persuade people to stop acting in their own self-interest, but to help them learn to avoid the systematic cognitive biases that make themselves and others worse off. (*Michael C. Jensen*)